

98-84350-12

Wells, David Ames

Internal revenue a
necessity

[New York?]

[1883?]

98-84350-12
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336.73 Wells, David Ames, 1828-98 & Shearman, T. G.
1834-1900,

Internal revenue a necessity

0 7 p

New York
Signed January 8, 1863
No title-page

No 2 of a vo 1 of pamph

REV ED

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TECHNICAL MICROFORM DATA

FILM SIZE: 35mm

REDUCTION RATIO: 11:1

IMAGE PLACEMENT: IA IB IIB

DATE FILMED: 2/27/98

INITIALS: F.C.

TRACKING #: 31226

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INTERNAL REVENUE A NECESSITY.

The last ingenious snare laid by the Protectionists is the captivating proposal to abolish the whole Internal Revenue system of taxation. This proposition has great attractions for a large class of voters, most of whom would naturally be on the side of free trade or a strictly revenue tariff. Kentucky and Virginia are great tobacco growing States; and the pressure of popular sentiment there is so strong, that some of the ablest advocates of tariff reform in Congress have joined in a report in favor of the total repeal of the internal tobacco tax. The necessity of reducing the national burden of taxation is so great, that many good free traders have been led to advocate the abolition of all internal taxation, as a means of securing immediate reduction of our excessive revenue. And some have expressed themselves in favor of such a step, on the ground that the decline in revenue thus caused would compel an increase of actual revenue from the tariff, which would undoubtedly be best secured by the repeal of all prohibitory duties and a reduced scale generally, on a real revenue basis, with incidental protection, and with the addition of duties on tea and coffee.

Believing this policy to be a mistaken one, the carrying out of which would indefinitely retard the adoption of a purely revenue tariff, we ask the attention of sincere revenue reformers to a few considerations on this subject.

I. Tariffs on imported goods always have been and always will be a very uncertain and unreliable source of revenue. No one can foresee exactly how a tariff will work, nor what revenue will

be permanently derived from it. Changes in the duties which are meant to increase the revenue often diminish it; and changes meant to diminish revenue often increase it. The very same change in a tariff which, in one year, increases revenue, in another year lessens it. Take a few examples:

1833	Tariff highly protective	Revenue	\$24,177,000
1834	" reduced	"	18,960,000
1836	" further reduced	"	30,818,000
1837	" unchanged	"	18,134,000
1839	" reduced	"	25,554,000
1840	" further reduced	"	15,104,000
1843	" greatly increased	" about	14,000,000
1846	" unchanged	"	26,712,000
1848	" greatly reduced	"	31,757,000
1852	" unchanged	"	47,339,000
1857	" unchanged	"	63,875,000
1858	" largely reduced	"	41,789,000
1860	" unchanged	"	53,187,000
1864	" doubled	"	102,316,000
1865	" unchanged	"	84,928,000
1866	" unchanged	"	179,046,000
1868	" increased	"	164,464,000
1872	" greatly reduced	"	216,270,000
1873	" further reduced	"	188,089,000
1875	" unchanged	"	157,167,000
1877	" increased	"	130,956,000
1882	" unchanged	"	220,000,000

This table sufficiently shows what an uncertain source or revenue a tariff always has been.

On the other hand, the income from internal revenue taxes has been wonderfully steady. Omitting the income from taxes which have been abolished entirely, since 1872, the receipts from this source, from 1871 to 1879, were never below \$100,000,000 nor above \$120,000,000, and were most steady during the years

of depression, when the receipts from the tariff receipts fell off most rapidly. Since the return of good times, the receipts from Internal Revenue have advanced at an even rate of \$10,000,000 per annum.

To destroy this source of revenue, therefore, it is to abandon a safe and steady spring and rely solely upon one which dries up when money is needed and overflows when it is not wanted. No matter whether the tariff is raised or lowered, it is certain that the revenue coming from it will soon and suddenly fall off. Within two years, at the utmost, after the abolition of internal taxation, duties would have to be laid on tea and coffee, or the Government would have to borrow money in time of peace.

II. There can be no genuine tariff reform without very large additions to the free list. Revenue reform cannot be achieved without the aid of a large section of the manufacturing class; and it ought not to be. The present tariff injures manufactures, as a whole, more than it does agriculture. It has its claws around the throats of many important manufactures; and the report of the Tariff Commission threatens to strangle many more. What manufacturers need, and all they need, is raw materials duty free. No half-way measures will do. A tax of 20 per cent. on their materials is just as fatal to their export business as one of 50 per cent. All crude metals, wood, wool, chemicals and oils must be put on the free list. But this means a loss of customs revenue, to the amount of over \$50,000,000. The reduction of duty on manufactured goods to 25 per cent. would greatly increase the revenue, but not enough to cover all this loss. Internal taxes must be kept up to supply the deficiency.

III. Indeed, it is essential to a proper tariff that it should include only a very few articles. Our present plan of taxing everything, by a drag-net, is an abomination. The number of articles taxed by the tariff should be reduced at an early day to less than 300, instead of more than 2000, as now. And, in a few years more, the dutiable articles should be reduced to less than 50. The existing system is one of protection which does not protect,

but simply burdens all and wastes all. It is simply impossible to protect everybody; though it is easy to oppress everybody, as we do now.

IV. The total abolition of protection (the great curse of this country) can only be effected in one of two ways. All indirect taxation might be abolished; but if this cannot be done, the taxes upon imported articles must be counterbalanced by equal taxes on the same articles manufactured or grown here. If foreign whisky and tobacco are taxed, while the home-made articles go free, of course none, or next to none, will be imported; and no revenue will come in. If imported iron is taxed and home-made iron is not, the result will always be, as now, that five-sixths of the whole tax, thus levied will go into the pockets of domestic iron masters, instead of the national treasury. But if we will persist in having only indirect taxes, it is utterly impossible to have a strictly revenue tariff, producing enough revenue, without the aid of internal taxation on liquors, at least, and probably on tobacco also. Judge Kelley and his allies know this very well. They are shrewd enough to see that the destruction of the internal revenue system would give protection another twelve years lease of life. They know that it will be impossible to frame any tariff which will not give some material incidental protection, unless it is supplemented by internal taxation. And they know, too, that under any tariff which gives protection to any class whatever, they can always have a good plea for the maintenance of the particular kinds of protective plunder in which Pennsylvania is interested. Is it not a sound maxim, not to do that which your shrewdest and keenest enemies want you to do? These gentlemen are no fools. They are very able and far-sighted men, whose intellects are clear enough to see through the pretenses with which they impose upon the working-man, but whose self-interest is enlisted permanently on the side of Pennsylvania extortion. Free traders will be perfectly safe in finding out what they want to have us do, and then not doing it.

V. It must never be forgotten that the Internal Revenue system, once abolished, can never be revived, except under the pressure of war or some terrible disaster. It has taken twenty years to get the system into its present admirable working order. Its burdens are adjusted to the shoulders which bear them. None of the principal manufacturers affected by it ask to have it removed. Their business is adjusted to it; and they only ask for peace. But when it is once removed, the same men will, naturally and properly, make the bitterest opposition to its revival; and there will be so much justice in their resistance, that they will command the sympathy of most impartial men. Again, if even the tobacco tax alone is repealed, the whole machinery by which it is now collected goes out of existence; and, upon its revival, the machinery also must be revived by men having no experience with it. All the frauds and oppressions which attended the original establishment of the tax (and they were enormous) will be renewed and doubled. Those difficulties have been almost entirely overcome now, and have had scarcely any existence for some years past. But they were so serious during the early days of the Internal Revenue system, that at one time the chief officers of the Treasury did not rely on the integrity of more than one sub-official in fifty. In the absence of such a pressure as that of the war, such a state of things could not stand for a year. If, then, the necessities of the government required the renewal of internal taxes, after their repeal, they could only be imposed after a tremendous struggle; and they would be swept away again, almost as quickly as they went into effect.

VI. The enormous provision which has been made for pensions, combined with the desperate haste with which we insist on paying off a debt bearing 3 per cent. interest, with money taken from people to whom it is worth 6 per cent., make it absolutely certain that the revenue derived from internal taxation cannot be all dispensed with, unless we tax tea and coffee, and probably not even then. Now tea and coffee are as legitimate a

subject for taxation as sugar: indeed, much more so, for they are not materials for manufacture, as sugar is. But surely whisky and tobacco are at least as proper subjects for taxation. And what will the temperate part of our people say, and justly say, if we relieve whisky and tobacco from taxes, only to tax tea and coffee? Such a proposition is a slap in the face to temperance men and women all over the country; and it is proposed thus to insult them, without even being asked or desired to do so by a single liquor dealer in the land. It is a proposition to make a million enemies and not one friend. Let the protectionists do this, to their heart's content. We desire no better issue before the people. But do not let any revenue reformer be caught in such an absurd position.

VII. To sum up:

The revenue produced by internal taxation on whisky and tobacco cannot all be spared.

It cannot be replaced by any tariff tax, except one which will cover tea and coffee.

The total abolition of internal taxation would destroy the only steady and unfluctuating source of income which the national government now has.

It would leave us to rely solely upon an income which, without any cause that can be foreseen, and without any change in the rate of taxation, varies 40 per cent. in a year, increasing when it ought to diminish, and diminishing when it ought to increase.

It would make it impossible to relieve manufactures from the burdens imposed upon them by the present monstrous tariff on raw materials.

It would postpone all valuable reforms in the tariff for ten years, and make a tariff literally for revenue *only* impossible for twenty years.

It would swamp the national finances, compel the government to borrow in time of peace, and produce a business crisis by the

double action of the injury to public credit and the failure of tariff reform.

The disasters thus caused will be practically irremediable, except by direct taxation; because these taxes, once removed, cannot be restored within our lifetime.

DAVID A. WELLS.
THOMAS G. SHEARMAN.

NEW YORK, January 8, 1883.

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